

CITY OF MORENCI
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name MORENCI	County LENAWEE
Fiscal Year End JUNE 30, 2007	Opinion Date DECEMBER 15, 2007	Date Audit Report Submitted to State JANUARY 14, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

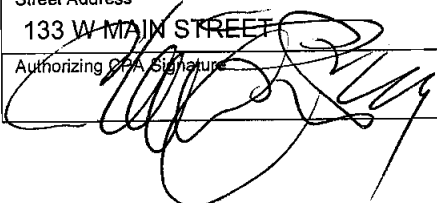
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) PHILIP R. RUBLEY CPA		Telephone Number 517-458-2274		
Street Address 133 W MAIN STREET		City MORENCI	State MI	Zip 49256
Authorizing CPA Signature 		Printed Name PHILIP R RUBLEY		License Number 9223

**CITY OF MORENCI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

December 15, 2007

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morenci, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

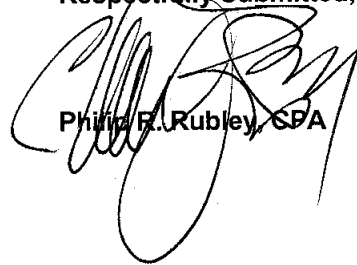
The management's discussion and analysis and budgetary comparison information on pages 3 through 9, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morenci, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City of Morenci
December 15, 2007

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name.

Philip R. Rubley, CPA

PRR/cab

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of City of Morenci, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Fire Equipment, Morenci Area EMS, Major Street and Local Street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include the primary government (the City) and a legally separated authority - The Downtown Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

The City As A Whole

The City's net assets for the year ended June 30, 2007 increased by 4.77% over the prior year. Management feels that because the economic conditions have been depressed, that the City will need to be extremely cautious in 2008.

The governmental activities reflect net assets of \$3,159,003 and the business-type (utilities) of \$3,684,639.

By far the largest portion of the City's net assets (87 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

CITY OF MORENCI, MICHIGAN NET ASSETS

Governmental Activities

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current and Other Assets	\$ 309,580	\$ 423,571
Capital Assets	<u>4,265,417</u>	<u>4,084,739</u>
Total Assets	<u>4,574,997</u>	<u>4,508,310</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	1,346,097	1,459,245
Other Liabilities	<u>69,897</u>	<u>88,551</u>
Total Liabilities	<u>1,415,994</u>	<u>1,547,796</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,927,408	2,630,994
Unrestricted	<u>231,595</u>	<u>329,520</u>
Total Net Assets	<u>\$3,159,003</u>	<u>\$2,960,514</u>

Business Activities

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current and Other Assets	\$ 658,344	\$ 621,722
Capital Assets	<u>4,264,529</u>	<u>4,427,349</u>
Total Assets	<u>4,922,873</u>	<u>5,049,071</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	1,215,000	1,465,000
Other Liabilities	<u>23,234</u>	<u>12,650</u>
Total Liabilities	<u>1,238,234</u>	<u>1,477,650</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	3,049,529	2,962,349
Restricted	231,420	260,227
Unrestricted	<u>403,690</u>	<u>348,845</u>
Total Net Assets	<u>\$3,684,639</u>	<u>\$3,571,421</u>

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

CITY OF MORENCI, MICHIGAN NET ASSETS

Governmental Activities

	<u>2007</u>	<u>2006</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$ 557,231	\$ 614,231
Operating Grants and Contributions	312,470	183,992
Capital Grants and Contributions	4,369	90,891
General Revenue:		
Property Taxes	662,879	534,561
Grants and Contributions Not Restricted To Specific Program	276,920	293,068
Other	39,659	36,509
Total Revenue	<u>1,853,528</u>	<u>1,753,252</u>
<u>Expenses</u>		
General Government	263,051	297,722
Public Safety	833,246	775,622
Public Works	360,339	456,620
Community and Economic Development	---	8,346
Recreation and Culture	124,471	129,929
Interest on Long-Term Debt	73,932	61,456
Other Functions	---	778
Total Expenses	<u>1,655,039</u>	<u>1,730,473</u>
Increase In Net Assets	<u>198,489</u>	<u>22,779</u>
Net Assets Beginning of Year	<u>2,960,514</u>	<u>2,937,735</u>
Net Assets End of Year	<u>\$3,159,003</u>	<u>\$2,960,514</u>

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

CITY OF MORENCI, MICHIGAN NET ASSETS

Business-Type Activities

	<u>2007</u>	<u>2006</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$ 555,722	\$ 531,178
General Revenue:		
Interest Income	<u>13,406</u>	<u>12,350</u>
Total Revenue	<u>569,128</u>	<u>543,528</u>
<u>Expenses</u>		
Interest on Long-Term Debt	39,369	41,237
Utilities Expenses	<u>416,541</u>	<u>427,391</u>
Total Expenses	<u>455,910</u>	<u>468,628</u>
Increase in Net Assets Before Transfers	<u>113,218</u>	<u>74,900</u>
Net Assets Beginning of Year	<u>3,571,421</u>	<u>3,496,521</u>
Net Assets End of Year	<u>\$3,684,639</u>	<u>\$3,571,421</u>

Government Activities

Government activities increased the City's net assets by \$198,489.

Business-Type Activities

Business-type activities increased the City's net assets by \$113,218.

The City's Funds

Our analysis of the City's funds begins on Page 10, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

CITY OF MORENCI, MICHIGAN
Management's Discussion and Analysis
June 30, 2007

General Fund Budgetary Highlights

Differences between the original budget and amended budget were minor.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$8,529,946 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 2.86%.

Long-term debt of the City decreased by \$417,968 (see Note 8 of the basic financial statements). An increase of new debt as \$54,820.

Economic Factors And Next Year's Budget And Rates

The City's budget for 2007-2008 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses. The City needs to increase its general fund net expendable assets.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 118 Orchard St., Morenci, Michigan 49256.

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<u>Assets</u>				
Cash and Equivalents	\$ 96,229	\$ 19,810	\$ 116,039	\$1,670
Investments	34,959	228,579	263,538	---
Receivables - Net	205,503	102,805	308,308	---
Inventory	564	3,050	3,614	---
Prepaid Items and Other Assets	23,296	21,709	45,005	---
Internal Balances	(50,971)	50,971	---	---
Restricted Cash	---	231,420	231,420	---
Capital Assets Not Being Depreciated	750,967	77,442	828,409	---
Capital Assets Being Depreciated - Net	3,514,450	4,187,087	7,701,537	---
Total Assets	<u>\$4,574,997</u>	<u>\$4,922,873</u>	<u>\$9,497,870</u>	<u>\$1,670</u>
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	\$ 69,897	\$ 23,234	\$ 93,131	\$ ---
Long-Term Liabilities:				
Due Within One Year	166,690	210,000	376,690	---
Due In More Than One Year	1,179,407	1,005,000	2,184,407	---
Total Liabilities	<u>1,415,994</u>	<u>1,238,234</u>	<u>2,654,228</u>	<u>---</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt				
Debt Service	2,927,408	3,049,529	5,976,937	---
Replacement	---	231,420	231,420	---
Unrestricted	231,595	403,690	635,285	---
Restricted	---	---	---	1,670
Total Net Assets	<u>\$3,159,003</u>	<u>\$3,684,639</u>	<u>\$6,843,642</u>	<u>\$1,670</u>

CITY OF MORENCI, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government					
<u>Governmental Activities:</u>					
General Government	\$ 263,051	\$242,461	\$ 2,763	\$4,369	\$ (13,458)
Public Safety	833,246	163,740	140,794	---	(528,712)
Public Works	360,339	143,327	165,758	---	(51,254)
Recreation and Culture	124,471	7,703	3,155	---	(113,613)
Interest on Long-Term Debt	73,932	---	---	---	(73,932)
Total Governmental Activities	<u>1,655,039</u>	<u>557,231</u>	<u>312,470</u>	<u>4,369</u>	<u>(780,969)</u>
<u>Business-Type Activities:</u>					
Utilities	455,910	352,427	---	---	(103,483)
Total Business-Type Activities	<u>455,910</u>	<u>352,427</u>	<u>---</u>	<u>---</u>	<u>(103,483)</u>
Total Primary Government	<u>\$2,110,949</u>	<u>\$909,658</u>	<u>\$312,470</u>	<u>\$4,369</u>	<u>\$ (884,452)</u>
<u>Component Unit:</u>					
Downtown Development	---	---	---	---	---
Total Component Unit	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

The notes to financial statements are an integral part of this statement.

CITY OF MORENCI, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2007

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$ (780,969)	\$ (103,483)	\$ (884,452)	\$ ---
General Revenues:				
Property Taxes/Assessments	662,879	203,295	866,174	1,338
Grants and Contributions				
Not Restricted To				
Specific Programs	276,920	---	276,920	---
Unrestricted Investment				
Earnings and Rentals	<u>39,659</u>	<u>13,406</u>	<u>53,065</u>	<u>---</u>
Total General Revenues, Contributions and Transfers	<u>979,458</u>	<u>216,701</u>	<u>1,196,159</u>	<u>1,338</u>
Change In Net Assets	198,489	113,218	311,707	332
Net Assets, Beginning of Year	<u>2,960,514</u>	<u>3,571,421</u>	<u>6,531,955</u>	<u>---</u>
Net Assets, End of Year	<u>\$3,159,003</u>	<u>\$3,684,639</u>	<u>\$6,843,662</u>	<u>\$1,670</u>

CITY OF MORENCI, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2007

	General Fund	Major Street Fund	Local Street Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ ---	\$ 4,435	\$ 6,999
Investments	---	---	---
Prepaid Expenses	18,431	---	---
Receivables - Net	88,908	20,056	7,159
Due from Other Funds	15,185	5,769	58,242
Inventories	564	---	---
Assessments Receivable	<u>14,572</u>	<u>---</u>	<u>---</u>
Total Assets	<u>\$137,660</u>	<u>\$30,260</u>	<u>\$72,400</u>
<u>LIABILITIES</u>			
Accounts Payable/Accrued Liabilities	\$ 31,676	\$ 5,935	\$ 4,463
Due to Other Funds	109,808	12	5,769
Deferred Revenue	28,952	---	---
Note Payable - Bank - Line of Credit	<u>---</u>	<u>---</u>	<u>---</u>
Total Liabilities	<u>170,436</u>	<u>5,947</u>	<u>10,232</u>
<u>FUND BALANCES</u>			
Unreserved (Deficit)	<u>(32,776)</u>	<u>24,313</u>	<u>62,168</u>
Total Fund Balances (Deficit)	<u>(32,776)</u>	<u>24,313</u>	<u>62,168</u>
Total Liabilities and Fund Balances	<u>\$137,660</u>	<u>\$30,260</u>	<u>\$72,400</u>

The notes to financial statements are an integral part of this statement.

Fire Equipment Fund	Morenci Area EMS	Non-Major Governmental Funds	Other Total Governmental Funds
\$ 9,572	\$ 7,363	\$17,127	\$ 45,496
22,693	---	12,266	34,959
---	1,022	---	19,453
123	42,384	18,528	177,158
---	---	658	79,854
---	---	---	564
---	---	---	14,572
<u>\$32,388</u>	<u>\$50,769</u>	<u>\$48,579</u>	<u>\$372,056</u>
\$ ---	\$ 8,341	\$ 5,242	\$ 55,657
477	13,674	710	130,450
---	---	---	28,952
---	8,088	---	8,088
<u>477</u>	<u>30,103</u>	<u>5,952</u>	<u>223,147</u>
<u>31,911</u>	<u>20,666</u>	<u>42,627</u>	<u>148,909</u>
<u>31,911</u>	<u>20,666</u>	<u>42,627</u>	<u>148,909</u>
<u>\$32,388</u>	<u>\$50,769</u>	<u>\$48,579</u>	<u>\$372,056</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet For Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund Balances – Total Governmental Funds

\$ 148,909

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital Assets

6,220,875

Deduct: Accumulated Depreciation

(1,955,458)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund.

67,027

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: Bonds and notes payable

(1,338,009)

Deduct: Accrued interest on bonds

(12,118)

Deduct: Accrued interest on note

(1,175)

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.

28,952

Net Assets of Governmental Activities

\$ 3,159,003

CITY OF MORENCI, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For The Year Ended June 30, 2007

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<u>REVENUES</u>			
Taxes and Assessments	\$ 526,225	\$ ---	\$ ---
Intergovernmental	276,920	122,157	43,601
Grants	4,369	136,739	---
Licenses and Permits	17,010	---	---
Fines and Forfeitures	6,706	---	---
Charges for Services	153,626	---	---
Interest and Rentals	36,809	138	21
Contributions	2,763	---	---
Other	80,174	---	---
Franchise Fee	8,661	---	---
Total Revenue	<u>1,113,263</u>	<u>259,034</u>	<u>43,622</u>
<u>EXPENDITURES</u>			
Current:			
General Government	251,395	---	---
Public Safety	386,105	---	---
Public Works	79,592	97,548	51,296
Recreation and Culture	108,081	---	---
Capital Outlay	59,036	214,593	673
Other Functions	41,575	---	---
Debt Service:			
Principle	126,991	9,097	---
Interest	65,141	5,903	---
Total Expenditures	<u>1,117,916</u>	<u>327,141</u>	<u>51,969</u>
Excess of Revenue Over (Under) Expenditures	(4,653)	(68,107)	(8,347)
Other Financing Sources (Uses)			
Transfers In	10,000	---	5,000
Transfers (Out)	---	(5,000)	---
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(5,000)</u>	<u>5,000</u>
Net Change In Fund Balances	5,347	(73,107)	(3,347)
Fund Balances – Beginning of Year (Deficit)	<u>(38,123)</u>	<u>97,420</u>	<u>65,515</u>
Fund Balances – End of Year (Deficit)	<u>\$ (32,776)</u>	<u>\$ 24,313</u>	<u>\$62,168</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Equipment Fund</u>	<u>Morenci Area EMS</u>	<u>Non-Major Governmental Funds</u>	<u>Other Total Governmental Funds</u>
\$ ---	\$126,385	\$ ---	\$ 652,610
---	---	---	442,678
---	---	---	141,108
---	---	---	17,010
---	---	---	6,706
7,756	147,108	60,360	368,850
1,219	41	720	38,948
1,160	2,895	3,155	9,973
4,485	1,354	8,574	94,587
---	---	---	8,661
<u>14,620</u>	<u>277,783</u>	<u>72,809</u>	<u>1,781,131</u>
---	---	---	251,395
425	263,690	1,246	651,466
---	---	60,073	288,509
---	---	7,306	115,387
5,698	---	6,588	286,588
---	---	---	41,575
6,484	6,984	---	149,556
730	2,823	---	74,597
<u>13,337</u>	<u>273,497</u>	<u>75,213</u>	<u>1,859,073</u>
1,283	4,286	(2,404)	(77,942)
---	---	---	15,000
(10,000)	---	---	(15,000)
(10,000)	---	---	---
(8,717)	4,286	(2,404)	(77,942)
<u>40,628</u>	<u>16,380</u>	<u>45,031</u>	<u>226,851</u>
<u>\$ 31,911</u>	<u>\$ 20,666</u>	<u>\$ 42,627</u>	<u>\$ 148,909</u>

CITY OF MORENCI, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2007

Net Change In Fund Balances -- Total Governmental Funds

\$ (77,942)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add:	Capital Outlay	286,588
-------------	----------------	---------

Deduct:	Depreciation Expense	(200,069)
----------------	----------------------	-----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds or notes increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add:	Principal payments on long-term liabilities	149,556
-------------	---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add:	Increase in interest payable on bonds and notes	1,000
-------------	---	-------

An internal service fund is used by management to charge certain costs of equipment usage to individual governmental funds - net increase in assets.

29,087

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.

10,269

Change In Net Assets Of Governmental Activities

\$ 198,489

CITY OF MORENCI, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
Assets		
Current Assets:	\$	\$
Cash and Cash Equivalents	7,161	44,427
Investments	228,579	---
Accounts Receivable	102,340	13,773
Interest Receivable	465	---
Inventory	3,050	---
Prepaid Expense	21,709	3,468
Due from Other Funds	50,971	---
Noncurrent Assets:		
Restricted Cash	231,420	---
Property and Equipment - Net	4,264,529	197,458
Total Noncurrent Assets	<u>4,495,949</u>	<u>197,458</u>
Total Assets	<u>\$4,910,224</u>	<u>\$259,126</u>
Liabilities		
Current Liabilities:	\$	\$
Accounts Payable and Accrued		
Liabilities/Deposits	17,431	947
Accrued Equipment Rent	5,803	---
Bonds Payable, Current Portion	210,000	13,708
Total Current Liabilities	<u>233,234</u>	<u>14,655</u>
Noncurrent Liabilities:		
Bonds Payable	1,005,000	20,112
Total Noncurrent Liabilities	<u>1,005,000</u>	<u>20,112</u>
Total Liabilities	<u>1,238,234</u>	<u>34,767</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,049,530	163,638
Restricted for Replacement	231,420	---
Unrestricted	391,040	60,721
Total Net Assets	<u>3,671,990</u>	<u>\$224,359</u>
Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>12,649</u>	
Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$3,684,639</u>	

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Funds
For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Charges for Services	\$ 351,479	\$ 75,795
Liabilities		
Salaries and Wages	115,845	21,207
Fringe Benefits	50,425	11,530
Office Expenses	6,426	3,763
Supplies and Materials	40,936	30,204
Utilities	25,167	---
Depreciation	167,771	23,380
Other Expenses	3,665	7,577
Total Operating Expenses	<u>410,235</u>	<u>97,661</u>
Operating Income (Loss)	<u>(58,756)</u>	<u>(21,866)</u>
Non-Operating Revenues (Expenses)		
Investment Income	13,406	711
Interest Expense	(39,369)	(335)
Other - Miscellaneous	948	2,036
Sewer Assessments	203,295	---
Total Non-Operating Revenues (Expenses)	<u>178,280</u>	<u>2,412</u>
Income (Loss) Before Transfers	119,524	(19,454)
Net Assets, Beginning of Year	<u>3,552,466</u>	<u>243,813</u>
Net Assets, End of Year	<u>\$3,671,990</u>	<u>\$224,359</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses and Changes
In Net Assets of Enterprise Funds to the Statement of Activities
June 30, 2007

Change In Net Assets – All Enterprise Funds

\$119,524

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

(6,306)

Change In Net Assets Of Business-Type Activities

\$113,218

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2007

	Business-Type Activities Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Cash Received from Customers/Assessments	\$ 551,967	\$ 64,754
Cash Received Miscellaneous	948	2,035
Cash Payment to Suppliers For Goods and Services/Employees	<u>(279,182)</u>	<u>(73,998)</u>
Net Cash Provided (Used)	<u>273,733</u>	<u>(7,209)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Capital Assets	(4,951)	(94,159)
Bond Principal Payments	(250,000)	---
Bond Interest Payments	<u>(34,147)</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities)	<u>(289,098)</u>	<u>(94,159)</u>
Cash Flows From Investing Activities		
Investment Income	13,076	722
Investments - Long Term	(21,171)	14,604
Issuance of New Debt	<u>---</u>	<u>33,820</u>
Net Cash Provided (Used) by Investing Activities	<u>(8,095)</u>	<u>49,146</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(23,460)	(52,222)
Cash and Cash Equivalents, Beginning of Year	<u>267,722</u>	<u>96,649</u>
Cash and Cash Equivalents, End of Year	<u>\$ 244,262</u>	<u>\$ 44,427</u>
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	\$ 7,161	\$ 44,427
Restricted Cash and Cash Equivalents	<u>237,101</u>	<u>---</u>
	<u>\$ 244,262</u>	<u>\$ 44,427</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 119,524	\$ (19,454)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	167,771	23,380
Changes in Assets and Liabilities:		
Accounts Receivable/Investments/Interest	(24,237)	(10,389)
Accounts Payable, Accrued Liabilities, Bonds Current Portion	<u>(10,396)</u>	<u>(24)</u>
Net Cash Provided (Used) by Operating Activities	<u>252,662</u>	<u>(6,487)</u>
Cash Flows from Capital Activities:		
Acquisition of Capital Assets	<u>(4,951)</u>	<u>(94,159)</u>
Net Cash (Used) from Capital Activities	<u>(4,951)</u>	<u>(94,159)</u>
Cash Flows From Financing Activities:		
Investments	(21,171)	14,604
Principal Paid on Bonds	(250,000)	---
Issuance of New Debt	<u>---</u>	<u>33,820</u>
Net Cash (Used) from Financing Activities	<u>(271,171)</u>	<u>48,424</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(23,460)	(52,222)
Cash and Cash Equivalents, Beginning of Year	<u>267,722</u>	<u>96,649</u>
Cash and Cash Equivalents, End of Year	<u>\$ 244,262</u>	<u>\$ 44,427</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Fiduciary Fund – State of Net Assets
For The Year Ended June 30, 2007

	<u>Tax Collection</u> <u>Fund</u>
Assets	
Cash	\$ 375
Total Assets	<u>\$ 375</u>
Liabilities	
Due to Other Fund	<u>\$ 375</u>
Net Assets	<u><u>\$ ---</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Morenci, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

City of Morenci, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

The financial statement of the City does not include the Morenci Stair Library which is under separate audit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Equipment Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing equipment purchases for public safety.

The Morenci Area EMS Fund is a Special Revenue Fund that receives monies from contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community and surrounding townships.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Water and Sewer Fund combined as the Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.
6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

Obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Mayor presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations In Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2007, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Council and General	\$ 7,765	\$ 11,045	\$ (3,280)
Clerk	44,698	64,659	(19,961)
Elections	3,136	3,324	(188)
Treasurer	13,464	26,650	(13,186)
Public Works:			
Street and Traffic Lights	25,557	29,657	(4,100)
Public Safety:			
Inspections	16,677	21,120	(4,443)
Recreation and Culture:			
Parks	36,936	37,712	(776)
Other Functions:	30,318	41,575	(11,257)
Capital Outlay:	37,650	59,036	(21,386)
Fire Equipment Fund:			
Fire	7,184	23,337	(16,153)
Major Street Fund:			
Major Street	155,522	332,141	(176,619)

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

The City has the following deposits which are carried at cost plus interest. The City does not have a deposit policy. The City investments are in accordance with statutory authority.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$200,000
Uninsured and Uncollateralized	<u>411,372</u>
	<u>\$611,372</u>

The above amounts include fiduciary funds of \$375.

CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk, is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2007 - \$411,372 of the City's bank balance of \$611,372 was exposed to custodial risk.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Asset:

Cash and Cash Equivalents	<u>\$610,997</u>
	<u>610,997</u>

Statement of Fiduciary Net Asset:

Agency Funds:	
Cash and Cash Equivalents	<u>375</u>
	<u>375</u>
	<u>\$611,372</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 750,967	\$ ---	\$ ---	\$ 750,967
	<u>750,967</u>	<u>---</u>	<u>---</u>	<u>750,967</u>
Capital Assets, Being Depreciated:				
Buildings	902,481	22,581	---	925,062
Vehicles	1,165,056	86,446	---	1,251,502
Equipment	761,032	47,682	(29,220)	779,494
Infrastructure	2,289,812	224,038	---	2,513,850
Total Capital Assets Being Depreciated	<u>5,118,381</u>	<u>380,747</u>	<u>(29,220)</u>	<u>5,469,908</u>
Less Accumulated Depreciation For:				
Buildings	(385,878)	(21,539)	---	(407,417)
Vehicles	(481,220)	(72,442)	---	(553,662)
Equipment	(516,480)	(36,770)	29,220	(524,030)
Infrastructure	(401,031)	(69,318)	---	(470,349)
Total Accumulated Depreciation	<u>(1,784,609)</u>	<u>(200,069)</u>	<u>29,220</u>	<u>(1,955,458)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,333,772</u>	<u>180,678</u>	<u>---</u>	<u>3,514,450</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,084,739</u>	<u>\$ 180,678</u>	<u>\$ ---</u>	<u>\$ 4,265,417</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,442	\$ ---	\$ ---	\$ 77,442
	<u>77,442</u>	<u>---</u>	<u>---</u>	<u>77,442</u>
Capital Assets, Being Depreciated:				
Buildings, Systems & Equipment	7,601,183	4,951	---	7,606,134
Total Capital Assets Being Depreciated	<u>7,601,183</u>	<u>4,951</u>	<u>---</u>	<u>7,606,134</u>
Less Accumulated Depreciation For:				
Buildings, Systems & Equipment	(3,251,276)	(167,771)	---	(3,419,047)
Total Accumulated Depreciation	<u>(3,251,276)</u>	<u>(167,771)</u>	<u>---</u>	<u>(3,419,047)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,349,907</u>	<u>(162,820)</u>	<u>---</u>	<u>4,187,087</u>
Business Type Activities Capital Assets, Net	<u>\$ 4,427,349</u>	<u>\$ (162,820)</u>	<u>\$ ---</u>	<u>\$ 4,264,529</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General Government	\$ 11,656
Public Safety	84,119
Public Works	71,830
Culture and Recreation	9,084
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>23,380</u>

Total Depreciation Expense Governmental Activities	<u>\$200,069</u>
---	-------------------------

Business-Type Activities:

Utilities	<u>\$167,771</u>
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Total Depreciation Expense Business-Type Activities	<u>\$167,771</u>
--	-------------------------

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2007, the following were interfund receivables and payables in the fund statement.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 15,185	109,808
Fire Equipment	---	477
Major Street	5,769	12
Local Street	58,242	5,769
Water	50,971	---
Debt Service	63	700
Morenci Town & Country	---	10
Refuse	595	---
EMS	---	13,674
Tax Collection	---	375
	<u>\$130,825</u>	<u>\$130,825</u>

The interfund receivables and payables are used for current operations, and are intended to be repaid in the next fiscal year.

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$10,000	\$ ---
Major Street	---	5,000
Local	5,000	---
Fire Equipment	---	10,000
	<u>\$15,000</u>	<u>\$15,000</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on August 31st with a 1% interest charge beginning October 1st. All delinquent taxes are charged with a 4% penalty.

Property taxes attach as an enforceable lien on the property as of January 1.

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Sanitary Sewer Bonds - Series I	\$ 50,000	\$ ---	\$ 50,000	\$ ---
Sanitary Sewer Bonds Series II	1,100,000	---	175,000	925,000
Bonds Payable - Water Distribution	315,000	---	25,000	290,000
Notes Payable - Industrial - Park - Land	152,226	---	49,301	102,925
Construction Bond - General Obligation	1,200,000	---	80,000	1,120,000
Notes Payable - Bank - 2005 Ford Pickup	24,721	---	6,484	18,237
Note Payable - Bank - 2005 Chevy Tahoe	23,614	---	6,787	16,827
Note Payable - Bank - 2003 Ford Ambulance	53,184	---	6,984	46,200
Note Payable - Bank - Line of Credit - EMS	5,500	21,000	18,412	8,088
Note Payable - Bank - 10' SL 316 Dump Body	---	33,820	---	33,820
Total	<u>\$2,924,245</u>	<u>\$54,820</u>	<u>\$417,968</u>	<u>\$2,561,097</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

NOTE 8 – LONG TERM DEBT (CONTINUED)

City of Morenci – Sanitary Sewer System Bonds

Title of Issue: City of Morenci - Series I Sanitary Sewer System Bonds
Purpose: Sanitary Sewer System
Interest Rate: 6.0% - Current
Interest Payable: Semi-Annual on January and July of each year
Amount of Issue: \$900,000

Paid off in 2007.

City of Morenci – 2003 Ford Ambulance Note

Purpose: Purchase Ambulance
Interest Rate: 5.0%
Amount of Note: \$56,000
Payments: Monthly at \$793 including interest for 84 months

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2007-2008	\$ 9,520	\$2,179	\$ 7,341
2008-2009	9,520	1,792	7,728
2009-2010	9,520	1,391	8,129
2010-2011	9,520	970	8,550
2011-2012	9,520	527	8,993
2012-2013	<u>5,553</u>	<u>94</u>	<u>5,459</u>
	<u>\$53,153</u>	<u>\$6,953</u>	<u>\$46,200</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

City of Morenci – Sanitary Sewer Systems Bonds

Title of Issue: City of Morenci – Series II Sanitary Sewer Systems Bonds
Purpose: Sanitary Sewer System
Interest Rate: 2.0% - Current
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$3,087,009

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2007	\$189,250	\$ 9,250	\$180,000
April 1, 2008	7,450	7,450	
October 1, 2008	187,450	7,450	180,000
April 1, 2009	5,650	5,650	
October 1, 2009	190,650	5,650	185,000
April 1, 2010	3,800	3,800	
October 1, 2010	193,800	3,800	190,000
April 1, 2011	1,900	1,900	
October 1, 2011	191,900	1,900	190,000
	<u>\$971,850</u>	<u>\$46,850</u>	<u>\$925,000</u>

City of Morenci – 2005 Chevy Tahoe – Police Vehicle

Purpose: Purchase 2005 Chevy Tahoe for Police Department
Interest Rate: 3.75%
Interest Payable: Monthly at \$630 including interest for 48 months
Amount of Issue: \$28,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
July 28, 2007 – June 28, 2008	\$ 7,521	\$ 475	\$ 7,046
July 28, 2008 – June 28, 2009	7,521	206	7,315
July 28, 2009 – June 28, 2010	2,593	127	2,466
	<u>\$17,635</u>	<u>\$ 808</u>	<u>\$16,827</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

City of Morenci – Revenue Sharing Bonds – Water Distribution

Title of Issue: Refunding of 1992A MBIA Revenue Sharing - Morenci
Purpose: Water Distribution
Date of Issue: May 13, 2004
Maturity Date: November 1, 2016
Interest Rate: 2.0% to 5.0%
Interest Payable: Semi-Annually
Amount of Issue: \$365,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
November 1, 2007	\$ 35,240	\$ 5,240	\$ 30,000
May 1, 2008	4,903	4,903	
November 1, 2008	34,903	4,903	30,000
May 1, 2009	4,490	4,490	
November 1, 2009	24,490	4,490	20,000
May 1, 2010	4,190	4,190	
November 1, 2010	29,190	4,190	25,000
May 1, 2011	3,790	3,790	
November 1, 2011	28,790	3,790	25,000
May 1, 2012	3,353	3,353	
November 1, 2012	33,353	3,353	30,000
May 1, 2013	2,790	2,790	
November 1, 2013	32,790	2,790	30,000
May 1, 2014	2,190	2,190	
November 1, 2014	37,190	2,190	35,000
May 1, 2015	1,490	1,490	
November 1, 2015	31,490	1,490	30,000
May 1, 2016	875	875	
November 1, 2016	35,875	875	35,000
	<u>\$351,382</u>	<u>\$61,382</u>	<u>\$290,000</u>

City of Morenci – Industrial Park – Land

Purpose: Industrial Park Development - Land
Interest Rate: 2.31%
Amount of Issue: \$440,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
September 12, 2007	\$ 26,327	\$1,195	\$ 25,132
March 12, 2008	26,327	897	25,430
September 12, 2008	26,327	603	25,724
March 12, 2009	26,816	177	26,639
	<u>\$105,797</u>	<u>\$2,872</u>	<u>\$102,925</u>

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

City of Morenci – General Obligation Bonds

Purpose: Downtown Development – Streetscape
Interest Rate: 4.4%
Amount of Issue: \$1,380,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2007	\$ 64,640	\$ 24,640	\$ 40,000
April 1, 2008	63,760	23,760	40,000
October 1, 2008	62,880	22,880	40,000
April 1, 2009	67,000	22,000	45,000
October 1, 2009	66,010	21,010	45,000
April 1, 2010	65,020	20,020	45,000
October 1, 2010	64,030	19,030	45,000
April 1, 2011	63,040	18,040	45,000
October 1, 2011	67,050	17,050	50,000
April 1, 2012	65,950	15,950	50,000
October 1, 2012	64,850	14,850	50,000
April 1, 2013	63,750	13,750	50,000
October 1, 2013	62,650	12,650	50,000
April 1, 2014	66,550	11,550	55,000
October 1, 2014	65,340	10,340	55,000
April 1, 2015	64,130	9,130	55,000
October 1, 2015	62,920	7,920	55,000
April 1, 2016	66,710	6,710	60,000
October 1, 2016	65,390	5,390	60,000
April 1, 2017	64,070	4,070	60,000
October 1, 2017	62,750	2,750	60,000
April 1, 2018	66,430	1,430	65,000
	<u>\$1,424,920</u>	<u>\$304,920</u>	<u>\$1,120,000</u>

City of Morenci – 2005 Ford Pickup

Purpose: Purchase 2005 Ford Pickup – Fire Department
Interest Rate: 3.125%
Amount of Issue: \$26,955
Payments: Monthly at \$599 including interest starting December 22, 2004

<u>Fiscal Year Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2007 - 2008	\$ 7,184	\$ 475	\$ 6,709
2008 - 2009	7,184	262	6,922
2009 - 2010	4,659	53	4,606
	<u>\$19,027</u>	<u>\$ 790</u>	<u>\$18,237</u>

City of Morenci – Line of Credit - EMS

Purpose: Operating Line – EMS
Interest Rate: Variable

Amount due at June 30, 2007: \$8,088

CITY OF MORENCI, MICHIGAN
Notes to Financial Statements
June 30, 2007

City of Morenci – 10' SL 316 Dump Body Note

Purpose: Purchase Dump Body
Date of Note: April 20, 2007
Interest Rate: 5.09%
Amount of Note: \$33,820
Payments: Annual with interest at \$6,764 plus interest

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
September 4, 2007	\$ 7,599	\$ 655	\$ 6,944
April 20, 2008	7,622	858	6,764
April 20, 2009	7,788	1,024	6,764
April 20, 2010	7,443	679	6,764
April 20, 2011	6,919	335	6,584
	<u>\$37,371</u>	<u>\$3,551</u>	<u>\$33,820</u>

Maturities of Long-Term Debt

Maturities of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2008	\$ 383,454
2009	376,092
2010	316,965
2011	320,134
2012	323,993
2013 thru 2017	715,459
2018	125,000
	<u>\$2,561,097</u>

NOTE 9 – PENSION PLAN

The City of Morenci has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Contribution by the City for fiscal year 2007 was \$26,452.

NOTE 10 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule - General Fund
For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ ---	\$ ---	\$ (38,123)	\$ (38,123)
<u>Resources (Inflows)</u>				
Taxes and Assessments	515,946	515,946	526,225	10,279
Intergovernmental	278,814	278,814	276,920	(1,894)
Grants	3,115	3,115	4,369	1,254
Licenses and Permits	17,442	17,442	17,010	(432)
Fines and Forfeitures	10,055	10,055	6,706	(3,349)
Charges For Services	127,422	127,422	153,626	26,204
Interest and Rentals	41,930	41,930	36,809	(5,121)
Other	62,831	62,831	80,174	17,343
Contributions	8,000	8,000	2,763	(5,237)
Transfers In Other Funds	30,250	30,250	10,000	(20,250)
Franchise Fee	8,200	8,200	8,661	461
<u>Amounts Available for Appropriation</u>	<u>1,104,005</u>	<u>1,104,005</u>	<u>1,085,140</u>	<u>(18,865)</u>
<u>Charges to Appropriations (Outflows)</u>				
<u>General Government</u>				
City Council	7,765	7,765	11,045	(3,280)
City Mayor	542	542	474	68
Treasurer	13,464	13,464	26,650	(13,186)
Assessing	9,560	9,560	9,000	560
Clerk	44,698	44,698	64,659	(19,961)
Elections	3,136	3,136	3,324	(188)
Buildings and Grounds	76,642	76,642	62,354	14,288
Board of Review	577	577	553	24
Cemetery	57,593	57,593	49,366	8,227
Professional Fees	19,524	19,524	17,961	1,563
Office	6,915	6,915	6,009	906
	<u>240,416</u>	<u>240,416</u>	<u>251,395</u>	<u>(10,979)</u>
<u>Public Safety</u>				
Police	308,238	308,238	302,162	6,076
Inspections	16,677	16,677	21,120	(4,443)
Fire	65,353	65,353	62,823	2,530
	<u>390,268</u>	<u>390,268</u>	<u>386,105</u>	<u>4,163</u>
<u>Public Works</u>				
Street and Traffic Lights	25,557	25,557	29,657	(4,100)
Sanitation	74,437	74,437	49,935	24,502
	<u>99,994</u>	<u>99,994</u>	<u>79,592</u>	<u>20,402</u>
<u>Recreation and Culture</u>				
Library	75,880	75,880	70,369	5,511
Park	36,936	36,936	37,712	(776)
	<u>112,816</u>	<u>112,816</u>	<u>108,081</u>	<u>4,735</u>
<u>Debt Service</u>	<u>192,543</u>	<u>192,543</u>	<u>192,132</u>	<u>411</u>
<u>Capital Outlay</u>	<u>37,650</u>	<u>37,650</u>	<u>59,036</u>	<u>(21,386)</u>
<u>Other Functions</u>	<u>30,318</u>	<u>30,318</u>	<u>41,575</u>	<u>(11,257)</u>
<u>Total Charges to Appropriations</u>	<u>1,104,005</u>	<u>1,104,005</u>	<u>1,117,916</u>	<u>(13,911)</u>
<u>Ending of Year Fund Balance (Deficit)</u>	\$ ---	\$ ---	\$ (32,776)	\$ (32,776)

The notes to financial statements are an integral part of this statement.

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Fire Equipment Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 84	\$ 84	\$40,628	\$ 40,544
<u>Resources (Inflows)</u>				
Charge for Services	6,000	6,000	7,756	1,756
Contributions	---	---	1,160	1,160
Interest Income	100	100	1,219	1,119
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>4,485</u>	<u>3,485</u>
<u>Amounts Available for Appropriation</u>	<u>7,184</u>	<u>7,184</u>	<u>55,248</u>	<u>48,064</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	---	---	425	(425)
Debt Service	7,184	7,184	7,214	(30)
Capital Outlay	---	---	5,698	(5,698)
Transfer to Other Funds	<u>---</u>	<u>---</u>	<u>10,000</u>	<u>(10,000)</u>
<u>Total Charges to Appropriations</u>	<u>7,184</u>	<u>7,184</u>	<u>23,337</u>	<u>(16,153)</u>
<u>Ending of Year Fund Balance</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$31,911</u>	<u>\$ 31,911</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Morenci Area EMS Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ ---	\$ ---	\$ 16,380	\$ 16,380
<u>Resources (Inflows)</u>				
Assessments	117,150	117,150	126,385	9,235
Charges for Services	146,255	146,255	147,108	853
Contributions	2,000	2,000	2,895	895
Interest Income	50	50	41	(9)
Other	750	750	1,354	604
<u>Amounts Available for Appropriation</u>	<u>266,205</u>	<u>266,205</u>	<u>294,163</u>	<u>27,958</u>
<u>Charges to Appropriations (Outflows)</u>				
Debt Service	9,520	9,520	9,807	(287)
EMS Service	253,685	253,685	263,690	(10,005)
Capital Outlay	3,000	3,000	---	3,000
<u>Total Charges to Appropriations</u>	<u>266,205</u>	<u>266,205</u>	<u>273,497</u>	<u>7,292</u>
<u>Ending of Year Fund Balance</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 20,666</u>	<u>\$ 20,666</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Special Revenue Fund)
For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 23,500	\$ 97,420	\$ 97,420	\$ ---
<u>Resources (Inflows)</u>				
Intergovernmental	122,000	122,000	122,157	157
Interest Income	50	50	138	88
Grants	---	---	136,739	136,739
<u>Amounts Available for Appropriation</u>	<u>145,550</u>	<u>219,470</u>	<u>356,454</u>	<u>136,984</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	117,545	117,545	97,548	19,997
Transfers to Other Funds	28,000	28,000	5,000	23,000
Capital Outlay	9,977	9,977	214,593	(15,000)
Debt Service	---	---	15,000	(204,616)
<u>Total Charges to Appropriations</u>	<u>155,522</u>	<u>155,522</u>	<u>332,141</u>	<u>(176,619)</u>
<u>Ending of Year Fund Balance</u>	<u>\$ (9,972)</u>	<u>\$ 63,948</u>	<u>\$ 24,313</u>	<u>\$ (39,635)</u>

CITY OF MORENCI, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Special Revenue Fund)
For The Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ ---	\$ 65,515	\$ 65,515	\$ ---
<u>Resources (Inflows)</u>				
Intergovernmental	36,555	36,555	43,601	7,046
Interest Income	25	25	21	(4)
Transfers from Other Funds	<u>28,000</u>	<u>28,000</u>	<u>5,000</u>	<u>(23,000)</u>
 <u>Amounts Available for Appropriation</u>	 <u>64,580</u>	 <u>130,095</u>	 <u>114,137</u>	 <u>(15,958)</u>
 <u>Charges to Appropriations (Outflows)</u>				
Public Works	54,608	54,608	51,296	3,312
Capital Outlay	<u>---</u>	<u>---</u>	<u>673</u>	<u>(673)</u>
 <u>Total Charges to Appropriations</u>	 <u>54,608</u>	 <u>54,608</u>	 <u>51,969</u>	 <u>2,639</u>
 <u>Ending of Year Fund Balance</u>	 <u>\$ 9,972</u>	 <u>\$ 75,487</u>	 <u>\$ 62,168</u>	 <u>\$ (13,319)</u>

CITY OF MORENCI, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

Special Revenue Funds

	<u>Police Equipment</u>	<u>Refuse</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 977	\$ 2,192
Receivables	---	16,765
Due from Other Funds	---	595
Investments	---	12,266
Total Assets	<u>\$ 977</u>	<u>\$31,818</u>
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
Total Liabilities	<u>---</u>	<u>---</u>
 <u>Fund Balance</u>	<u>977</u>	<u>31,818</u>
 Total Liabilities And Fund Balances	<u>\$ 977</u>	<u>\$31,818</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ ---	\$12,381	\$ 462	\$1,115	\$17,127
---	1,763	---	---	18,528
---	---	---	63	658
---	---	---	---	12,266
<u>\$ ---</u>	<u>\$14,144</u>	<u>\$ 462</u>	<u>\$1,178</u>	<u>\$48,579</u>
\$ ---	\$ 5,242	\$ ---	\$ ---	\$ 5,242
---	10	---	700	710
---	5,252	---	700	5,952
---	8,892	462	478	42,627
<u>\$ ---</u>	<u>\$14,144</u>	<u>\$ 462</u>	<u>\$1,178</u>	<u>\$48,579</u>

CITY OF MORENCI, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2007

Special Revenue Funds

	<u>Police Equipment</u>	<u>Refuse</u>
<u>Revenues:</u>		
Contributions	\$ ---	\$ ---
Charges for Services	1,170	59,190
Interest and Rents	3	671
Other Revenue	410	---
Total Revenue	<u>1,583</u>	<u>59,861</u>
<u>Expenditures:</u>		
Public Safety	608	---
Public Works	---	60,073
Recreational and Cultural	---	---
Capital Outlay	6,588	---
Total Expenditures	<u>7,196</u>	<u>60,073</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(5,613)</u>	<u>(212)</u>
<u>Other Financing Sources (Uses):</u>		
Operating Transfers In	---	---
Operating Transfers (Out)	---	---
(Decrease) in Market Value of Investments	---	---
Total Other Financing Sources (Uses)	<u>---</u>	<u>---</u>
<u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u>	<u>(5,613)</u>	<u>(212)</u>
<u>Beginning Fund Balance</u>	<u>6,590</u>	<u>32,030</u>
<u>Ending Fund Balance</u>	<u>\$ 977</u>	<u>\$31,818</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town & Country Festival</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ ---	\$ 3,155	\$ ---	\$ ---	\$ 3,155
---	---	---	---	60,360
1	41	---	4	720
---	7,703	461	---	8,574
<u>1</u>	<u>10,899</u>	<u>461</u>	<u>4</u>	<u>72,809</u>
294	---	344	---	1,246
---	---	---	---	60,073
---	7,306	---	---	7,306
---	---	---	---	6,588
<u>294</u>	<u>7,306</u>	<u>344</u>	<u>---</u>	<u>75,213</u>
<u>(293)</u>	<u>3,593</u>	<u>(117)</u>	<u>4</u>	<u>(2,404)</u>
---	---	---	---	---
---	---	---	---	---
---	---	---	---	---
(293)	3,593	117	4	(2,404)
<u>293</u>	<u>5,299</u>	<u>345</u>	<u>474</u>	<u>45,031</u>
<u>\$ ---</u>	<u>\$ 8,892</u>	<u>\$ 462</u>	<u>\$ 478</u>	<u>\$42,627</u>

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& THE MICHIGAN ASSOCIATION OF C.P.A.'S

December 15, 2007

Honorable Mayor and Members
Of The City Council
City of Morenci
Morenci, Michigan 49256

We have examined the financial statements of the City of Morenci, Michigan dated December 15, 2007. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2007, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Statement on Auditing Standards Pronouncement 112 requires us as auditors to communicate what we determine to be significant deficiencies and material weaknesses to management and those charged with governance in regards to internal control matters.

A significant deficiency is a control deficiency or combination of control deficiencies that creates the remote likelihood that a misstatement of the City's financial statements is more than inconsequential and will not be prevented or detected on a timely basis by employees in the normal course of business.

Based on this criteria the following comments are in this category:

1. **SEGREGATION OF DUTIES**

Because of the size and number of personal segregation of duties is a significant deficiency. These means at the basic level, no single individual should have control over two or more phases of a transaction or operation in the accounting function.

We feel however that because of managements oversight, that this is not a material weakness in the control system.

OTHER MATTERS FOR CONSIDERATION

These comments are not significant deficiencies but are suggestions to improve your existing accounting and control systems.

1. **DEPOSIT POLICY**

Consider establishing a policy to deposit funds in more than one bank to obtain additional FDIC insurance and reduce your custodial risk.

2. **FIXED ASSETS**

Maintain or continue to maintain any deletions of assets or purchases of assets subject to capitalization (over \$1,500.00)

3. **DEFICIT FUND BALANCE – GENERAL FUND**

The City needs to come up with an additional deficit reduction plan for the general fund.

4. **INTERFUND TRANSFERS/RECEIVABLE/PAYABLE**

All transfers receivable and payable must be tied out in the general ledger monthly.

5. **PURCHASE OF PERSONAL ITEMS**

The purchase of personal items, which were reimbursed, is not allowable. The City is a non-taxable entity, which should not be used for a function outside of the City's activities.

6. **CONTRIBUTIONS RECEIVED**

A letter should be written on all contributions given to the City for documentation for the donor and whether there are any restrictions.

7. **BANK RECONCILIATIONS**

Bank reconciliations need to be prepared monthly and tied out to the general ledger monthly.

8. **MOTOR VEHICLE FUND EQUIPMENT RATES**

Comply with State of Michigan MDOT rates where possible adjusting yearly to those rates.

9. **POSTING ACTIVITY**

Be sure all activity is posted monthly for receipts, disbursements, loans, etc.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated December 15, 2007, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab